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PAGE 01 MOSCOW 01771 061314Z

64

ACTION EUR-12

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SUBJECT: BROWN AND ROOT PURSUES CONTRACTS FOR BAKU OIL RIG

FABRICATION YARD AND "NORTH STAR" GAS PIPELINE AND

LIQUIFICATION PLANT

1. SUMMARY - TOP BROWN AND ROOT EXECUTIVES TOLD AMBASSADOR FEBRUARY 5 THAT CONSORTIA LED BY THEIR FIRM EXPECTED TO WIN DOLS 2.0 BILLION CONTRACT FOR OIL RIG FABRICATION YARD IN BAKU AND HAD REACTIVATED "NORTH STAR" GAS PIPELINE AND LIQUIFICATION PLANT PROJECT, WORTH SOME DOLS 7.0 BILLION, WHICH WOULD PROVIDE LNG TO US EASTERN SEABOARD. EXECUTIVES REGRETTED FACT, HOWEVER, THAT ABSENCE OF EX-IM CREDITS WOULD FORCE THEM TO SOURCE EQUIPMENT PURCHASES FROM EUROPEAN SUPPLIERS. END SUMMARY

2. FOSTER PARKER, PRESIDENT OF HOUSTON'S BROWN AND ROOT, INC. (HALLIBURTON SUBSIDIARY), AND WALTER A. ZIMMERMAN, PRESIDENT OF BROWN AND ROOT TRADING, INC., VISITED

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PAGE 02 MOSCOW 01771 061314Z

MOSCOW WEEK OF FEBRUARY 2 TO OPEN THEIR COMPANY'S

REPRESENTATIVE OFFICE FOLLOWING RECEIPT OF ACCREDITATION LAST FALL FROM STATE COMMITTEE FOR SCIENCE AND TECHNOLOGY. (ACCREDITATION CLEARLY BASED ON COMPANY'S PROSPECTS, FOR BROWN AND ROOT HAS NOT YET SIGNED CONTRACT WITH ANY SOVIET ORGANIZATION.) ON FEBRUARY 5 PARKER AND ZIMMERMAN BRIEFED AMBASSADOR ON COMPANY'S PENDING PROPOSALS FOR MAJOR ENERGY-RELATED PROJECTS.

3. EXECUTIVES SAID BROWN AND ROOT HAS SIGNED TECHNICAL PROTOCOL WITH MINISTRY OF PETROLEUM INDUSTRY FOR CONSTRUCTION OF BAKU FABRICATION YARD FOR STATIONARY DRILLING RIGS TO BE USED IN DEEP-WATER OPERATIONS (100-200 M) IN CASPIAN SEA. COMMERCIAL CONTRACT, NOW UNDER NEGOTIATION WITH V/O SUDOIMPORT, SHOULD BE WORTH SOME DOLS 2.0 BILLION AS YARD WILL BE TWO-AND -A-HALF TIMES LARGER THAN CURRENT RECORD HOLDER, WHICH COMPANY BUILT IN SCOTLAND TO FABRICATE NORTH SEA RIGS. CONSTRUCTION OF YARD EXPECTED TO LAST THREE YEARS, AFTER WHICH YARD WILL ASSEMBLE FIRST TWO RIGS FROM IMPORTED COMPONENTS BEFORE SOVIET PLANTS PRODUCING RIG EQUIPMENT COME ON STREAM. YARD CAPACITY WILL BE ONE 200-METER AND ONE 100-METER RIG PER YEAR. PARKER AND ZIMMERMAN AGREED SOVIETS WERE GAMBLING CONSIDERABLE SUM ON EXISTENCE OF OIL IN DEEP WATER AREAS, BUT SAID SOME TESTING HAD BEEN DONE WITH GEOPHYSICAL SURVEY SHIP PROCURED FROM IFP AND SEVERAL JACK-UP RIGS. ZIMMERMAN SUSPECTED YARD WOULD ALSO EVENTUALLY BE USED TO PRODUCE LARGE SECTIONS OF FIRST RIGS FOR OPERATIONS IN BARENTS SEA.

4. EXECUTIVES EXPLAINED BROWN AND ROOT ACTING IN BAKU PROJECT AS MANAGING PARTNER (50 PERCENT SHARE) OF CONSORTIUM INCLUDING BRITISH PETROLEUM AND UK'S GEORGE WIMPEY CONSTRUCTION COMPANY, WITH WHOM FIRM HAD JOINED IN BUILDING SCOTTISH YARD. 80-90 PERCENT OF EQUIPMENT WOULD BE SOURCED FROM BRITISH FIRMS SINCE HMG OFFERING CREDITS UNDER LINE PREVIOUSLY AUTHORIZED FOR SOVIET PROJECTS. PARKER AND ZIMMERMAN REGRETTED NECESSITY OF UK SOURCING AS MUCH BRITISH EQUIPMENT INFERIOR TO AMERICAN IN THEIR OPINION. THEY FELT, HOWEVER, THAT NECESSITY OF LARGE-SCALE GOVERNMENT CREDIT AND ABSENCE LIMITED OFFICIAL USE

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PAGE 03 MOSCOW 01771 061314Z

OF EX-IM FACILITIES LEFT THEM NO CHOICE. ZIMMERMAN BELIEVED SOME US EQUIPMENT WOULD NEVERTHELESS BE ORDERED FOR PROJECT AND SPECIFICALLY MENTIONED LARGE CRANES MANUFACTURED BY MANITOWOC. ONLY COMPETITION COMING FROM FRENCH GROUP LED BY ENTREPOSE, WHICH IS REPORTEDLY RECEIVING STRONG SUPPORT FROM PRESIDENT GISCARD D'ESTAING, BUT ZIMMERMAN CLAIMED THAT FRENCH DID NOT HAVE TECHNICAL EXPERTISE REQUIRED FOR PROJECT AND THAT

SOVIETS KNEWTHIS.

5. TURNING TO "NORTH STAR", PARKER AND ZIMMERMAN EXPLAINED THAT SOVIETS HAD CONSIDERED PROJECT HALF-DEAD AND HAD THEREFORE NOT INCLUDED RESOURCES NECESSARY FOR IT IN 1976-80 FYP. ITS RESURRECTION CAME WHEN BROWN AND ROOT WAS ABLE TO INTEREST GAZ DE FRANCE, CREUSOT LOIRE AND MANNESMANN IN PARTICIPATION. FRANCE HAS TENTATIVELY AGREED TO PLEDGE DOLS 3.0 BILLION TOWARD DOLS 7.0 CREDIT NEEDED FOR PROJECT WHILE MANNESMANN WOULD CONTRIBUTE INCOME FROM AMORTIZATION OF SOVIET PIPE PURCHASES AND UK WILLING TO MAKE GOVERNMENT CREDITS AVAILABLE. UNDER THESE CIRCUMSTANCES, HOWEVER, THE GREAT BULK OF EQUIPMENT PURCHASES WOULD BE MADE IN THESE THREE COUNTRIES.

6. PROJECT CALLS FOR PIPELINE FROM URENGOY FIELDS TO LIQUIFICATION PLANT TO BE ASSEMBLED FROM PREFABRICATED SECTIONS AT PECHENGA, WHICH COULD LIQUIFY 2.0 BILLION CUBIC FEET PER DAY. THREE-QUARTERS OF LNG WOULD BE PURCHASED BY TENNECO AND TEXAS EASTERN FOR USE ON US EASTERN SEABOARD. PRICE WOULD BE BASED ON COMPARATIVE ENERGY SOURCE VIA PRESENT RELATIONSHIP BETWEEN ALGERIAN LNG PRICE AND COST OF NOS. TWO AND SIX FUEL OIL. ON THIS BASIS ZIMMERMAN CALCULATED SOVIETS COULD AMORTIZE THEIR DEBT IN FOUR YEARS AND EARN DOLS 60.0 BILLION DURING FIRST TWENTY-FIVE YEARS OF PROJECT. THIS FIGURE COULD BE INCREASED FURTHER AFTER 1985 BY PROJECT'S SECOND PHASE, WHICH WOULD LOOP LINE AND BUILD TWIN LNG PLANT, WHOSE OUTPUT WOULD GO PRIMARILY TO EUROPE TO REPLACE DECLINING DUTCH PRODUCTION.

7. PARKER AND ZIMMERMAN UNDERSTAND KEY SOVIET OFFICIALS LIMITED OFFICIAL USE

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PAGE 04 MOSCOW 01771 061314Z

HAVE APPROVED NORTH STAR IN PRINCIPLE AND ARE NOW ATTEMPTING TO FIND RESOURCES NECESSARY FOR INFRASTRUCTURAL WORK. (COMMENT - THIS COULD BE DIFFICULT, HOWEVER, AS SOVIETS HAVE HAD TROUBLE RECRUITING LABOR FOR CONSTRUCTION WORK IN REMOTE AREAS UNDER SEVERE CLIMATIC CONDITIONS. END COMMENT) FINAL DECISION EXPECTED WITHIN NEXT MONTH OR TWO.

8. COMMENT - ZIMMERMAN ADVISED THAT JACK RAY OF TENNECO AND NEVILLE PROESS OF TEXAS EASTERN HAD BEEN GIVEN FAVORABLE READING WHEN THEY DISCUSSED NORTH STAR AT NSC AND FPC DURING JANUARY. "INTERNATIONALIZATION" OF NORTH STAR IS INEVITABLE, IF PROJECT IS TO PROCEED, IN ABSENCE EX-IM FINANCING. IT IS UNFORTUNATE, HOWEVER, THAT US COULD END UP PAYING FOR 75 PERCENT OF NORTH

STAR, IN FORM OF PAYMENTS FOR GAS, WITHOUT GETTING IN ON ANY
OF THE EQUIPMENT SUPPLY. END COMMENT.
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